COMMONWEALTH OF MASSACHUSETTS

SUFFOLK, SS.

SUPREME JUDICIAL COURT
FOR SUFFOLK COUNTY
NO. SJ-2000-65

LINDA L. RUTHARDT, as she is COMMISSIONER OF INSURANCE of the COMMONWEALTH OF MASSACHUSETTS,

Plaintiff,

v.

TRUST INSURANCE COMPANY and TRUST ASSURANCE COMPANY,

Defendants.

PERMANENT RECEIVER'S STATUS REPORT

I, Linda L. Ruthardt, Commissioner of Insurance of the Commonwealth of Massachusetts, in my capacity as Permanent Receiver (the "Receiver") of Trust Insurance Company ("Trust Insurance") and Trust Assurance Company ("Trust Assurance") (collectively, "the Companies"), hereby submit this status report on the receivership of the Companies.

1. Staffing. As of January 31, 2002, the Companies had no remaining employees. I continue to utilize the services of American Patriot Group Inc. ("APG")[1] and Associated Insurance Management Inc. ("AIM, Inc.") to assist with the liquidation process. Presently, one senior APG manager spends part of each day at the Companies' Taunton facility coordinating activities with the guaranty funds, supervising the collection of assets and

[1] APG is a wholly owned subsidiary of American Mutual Liability Insurance Company, in Liquidation ("AMLICO"). By virtue of my appointment as Permanent Receiver of AMLICO, I also control the operations of APG.

acting as the principal contact for members of the public with questions concerning the Companies. Two other APG employees provide property management services and one provides claim support service at the Taunton location.[2] Other APG employees support the Trust Insurance proof of claim process previously approved by the Court, the collection of premium and unearned commissions, subrogation recoveries and the adjustment of Trust Assurance claims. The Companies are charged for the services of APG employees at cost. One AIM, Inc. employee is now involved to assist with continuing Human Resource and other administrative issues. APG's 2001 charges for these services were approximately $610,000 and AIM, Inc.'s $135,000. I have sought to keep administrative expenses at the lowest level possible, particularly in light of the very limited liquid assets within my control. Our goal is for those expenses not to exceed investment income.

2. Assets.

(a) Negative Cash Flow. The Companies have experienced severely negative cash flow since the beginning of the receivership. The sale of bonds (in most cases instruments with long terms) has resulted in significant realized capital losses. Statutory Accounting Principles provide for insurers to record the value of investment grade bonds at their face/amortized amount so the market value of a bond only impacts the insurer's

[2] These individuals were formerly employees of Trust Insurance. When the small number of Trust Insurance employees made it impossible to continue medical insurance benefits, their Trust Insurance employment was terminated and they were employed by APG at the same salary rate.

financial statement when the bond is sold or matures. Through January 31, 2002, the realized loss on bonds owned by Trust Insurance at December 31, 1999 has been approximately $3.5 million. As of January 31, 2002, the unrealized loss on the remaining Trust Insurance bonds was an additional approximately $1.05 million.

(b) Evaluation of the Assets Within the Control of the Receiver. As reflected on the attached Exhibit "A", Trust Insurance had liquid assets under my control as Receiver of approximately $7.5 million at January 31, 2002. (Liquid assets under my control as of December 31, 2000 were approximately $6.1 million.) The Rhode Island ancillary receiver of Trust Insurance holds approximately $1.1 million from a special deposit, but there have been few Rhode Island claims. So too, New Hampshire officials hold $612,000 from a special deposit, but there have also been very few New Hampshire claims. I believe that it is reasonable, based on the information presently available, to anticipate a reversion of at least $1 million from those deposits. Exhibit "A" nets $511,000 from liquid assets due to outstanding checks issued since May 1, 2000. Most of those checks are now stale so it is reasonable to conclude that 75% of that amount ($383,000) will be available for distribution to creditors. At present an additional $5.6 million is being held in escrow pending resolution of competing claims to assets previously liquidated. Finally, as explained below, I have recently signed a term sheet for the sale of Trust Insurance's corporate headquarters for $5 million. Therefore, based on my present projections, approximately $19.5 million may ultimately be available to distribute to creditors.

(c) Priority Claims. Although the anticipated cost of the liquidation process (legal, accounting, actuarial, APG, AIM, Inc.) is expected to be only a fraction of the liquid assets noted above, it is not possible, for the reasons described in this Report, to presently predict whether the assets ultimately available to the Receiver will be adequate to pay the full cost of claims previously afforded administrative expense priority. For that reason, as described in the Motion of the Massachusetts Insurers Insolvency Fund ("MIIF") dated September 13, 2000 and my Status Report of July 20, 2001, I transferred the administration of all Trust Insurance claims occurring between February 10, 2000 and August 1, 2000 (the period when such claims were afforded an administrative expense priority) to MIIF and its counterparts in other states in September, 2000. At the same time, MIIF assumed responsibility for the return of unearned premiums under all Trust Insurance policies. Through December 31, 2001, the guaranty funds report approximately $4.5 million of loss payments and approximately $7.1 million of outstanding loss reserves for such priority claims. The guaranty funds have also paid Trust Insurance policyholders or reimbursed the Receiver approximately $3.3 million for unearned premium claims through December 31, 2001. Based upon these guaranty fund reports, it appears approximately $15 million will be due for guaranty fund payments ascribed an administrative expense priority.

3. Claim Processing. As noted above, MIIF (and its counterparts in other states) are now adjusting and paying

"covered claims" under policies of insurance issued by Trust Insurance. The various guaranty funds have reported the payment of approximately $21.1 million in Trust Insurance claims through December 31, 2001. Responsibility for adjusting and paying all outstanding claims under policies of insurance issued by Trust Assurance was transitioned to APG effective February 1, 2001.

4. Proof of Claim Process. Pursuant to the Court's order of August 6, 2001, notice was mailed to approximately 19,700 potential Trust Insurance creditors. The deadline for the filing of all Proofs of Claim against Trust Insurance, pursuant to G.L. c. 175, §180F, is August 6, 2002. Through February 27, 2002, 678 claims have been received but more are expected to be filed by August 6, 2002. I expect to file a motion for approval of a proposed Plan of Liquidation for Trust Insurance in the near future. The Plan should provide the procedural structure for the determination of such claims in a manner consistent with the assets which are likely to be available to satisfy creditor claims--namely, to defer (and not determine) claims below Class 1 unless such a deferred claim would support a claim for reinsurance.

5. Disposition of real estate and other assets.

(a) Northwoods Property. As outlined in my previous filings, Trust Insurance owned its corporate headquarters property as well as forty-six acres of commercially zoned land ("Northwoods"), both located in Taunton, Massachusetts. The Court approved the sale of the Northwoods property, after an extensive offering process, on August 23, 2001. The transaction thereafter closed yielding cash proceeds of approximately $2.75

million ($60,169 lower than the value carried in the December 31, 1999 Annual Statement[3]). The proceeds were placed into escrow pending resolution of the competing claims asserted by Trust Insurance's parent, Trust Group Inc. ("Group") and Fleet National Bank, N.A. ("Fleet").

(b) Corporate Headquarters. In October, 2000, I engaged CB Richard Ellis/Whittier Partners to market the corporate headquarters property, which then conducted an offering process. The value of the corporate headquarters carried in the 1999 Annual Statement was $7.99 million. I have recently reached an agreement in principle for the sale of the corporate headquarters for $5 million. Our effort will now be to negotiate a purchase and sale agreement for the corporate headquarters, which agreement will become effective only upon approval by the Court on motion by the Receiver.

(c) Trust Enterprise System. By its order entered on October 5, 2000, the Court approved a three year technology license and marketing agreement with American International Technology Enterprises, Inc. ("AITE") for the Trust Enterprise computer system in which Trust Insurance had invested over $11 million. Pursuant to that agreement, royalty payments derived from the licensing of the Trust Enterprise system were to be partially allocated to AITE in order to amortize unpaid development costs of the system. Any royalties allocated to the

[3] The December 31, 1999 Trust Insurance Annual Statement was prepared after the beginning of the Company's receivership using the information then available from its records. Trust Insurance's last audited financial statement was filed for the period ending December 31, 1997.

Companies were to be escrowed, pending resolution of the claims asserted by Fleet and Group. To date, the marketing of the Trust Enterprise system has not generated any royalty payments, and due to the passage of time it is unlikely to do so in the future. At December 31, 1999, the value carried for this "asset" was $4.96 million but its liquidation value appears to be $0.

d. Other assets.

(i) Among the other assets which are continuing to be marshaled are reinsurance recoveries, claim subrogation recoveries, and unearned agents' commissions. From the inception of the proceedings through January 31, 2002, $968,000 of reinsurance, $23,568,000 of subrogation and $2,495,000 of unearned agents' commissions have been recovered.

(ii) Prior to the beginning of the receivership, Trust Insurance asserted that its obligations to Commonwealth Automobile Reinsurers ("CAR") should be substantially adjusted due to payments made by automobile insurers withdrawing from Massachusetts. To this end Trust Insurance initiated litigation against CAR and the Commissioner of Insurance. For the reasons described in my October 22, 2001 motion, I sought the appointment of a Special Deputy Receiver to be responsible for addressing such claims. The Special Deputy Receiver has recently initiated litigation in the Suffolk Superior Court against CAR and the Commissioner of Insurance with respect to this question. At this point it is not possible to assess the value, if any, of such a Trust Insurance claim against CAR.

(iii) I am also evaluating potential claims Trust Insurance may have against others.

6. Status of Trust Assurance Company. Trust Insurance owns all of the common stock of Trust Assurance. The Trust Insurance December 31, 1999 Annual Statement recorded the value of Trust Assurance as approximately $7.3 million. Actual experience during the runoff of Trust Assurance's obligations demonstrates that its loss reserves were substantially deficient. A comparison of Trust Assurance's current case loss reserves to assets, reflects a favorable balance of less than $1 million. Reinsurance recoveries may add to that balance but it appears unlikely that the net value of Trust Assurance to Trust Insurance will approach the value recorded in the 1999 Annual Statement.

7. Other adjustments to the 1999 Trust Insurance Annual Statement. The Trust Insurance 1999 Annual Statement reported a premium receivable of $42.38 million. It now appears that the actual premium receivable at December 31, 1999 was at least $16 million less. Similarly, the $2.5 million recorded as an intercompany receivable has proven to be $0. On the Liability side of the balance sheet, I will continue to monitor guaranty fund loss experience in order to evaluate the adequacy of Trust Insurance's pre-receivership loss reserves.

10. Summary. The negative adjustments to Trust Insurance's December 31, 1999 financial statement detailed above total $36.3 million. Fleet and possibly Group will assert claims to certain of the Trust Insurance assets. I intend to attempt to resolve those issues through negotiation but if unsuccessful, they will need to be presented to the Court for determination. These negative adjustments described above, in combination with the claims of Fleet and Group, create uncertainty whether adequate

assets will be available to fully reimburse creditor claims previously provided with an administrative expense priority. Based upon my experience as Insurance Commissioner for over eight years and receiver of seven other insurance companies, I can report that the affairs of Trust Insurance are uniquely challenging, present exceptionally complex issues, and confound traditional prediction techniques. I therefore respectfully maintain that the answers to the asset and liability valuation issues described above will only be provided by the passage of time as the guaranty funds pay the claims and I am able to convert assets to cash and resolve the competing claims to those assets. Every effort is being made to do so as promptly as possible.

Respectfully submitted,

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Linda L. Ruthardt
Permanent Receiver

Dated: March __, 2002